

# Chapter Eight: Payroll Deduction Program

## Overview

The Payroll Deduction Program (PDP) allows members to pay TRS optional contribution balances with before-tax dollars via payroll deduction. Eligible balances include optional service, repayment of a refund, 2.2 upgrade, or estimated ERO (Early Retirement Option).

The monthly PDP deduction is considered a “pick up” by the employer. Therefore, the amount is not subject to federal and state income taxes in that year. PDP payments will be taxed after a member retires. The member may wish to check with a financial advisor to determine if participation in the Payroll Deduction Program might reduce the amounts he or she is allowed to contribute to their 403(b) tax-sheltered annuity or their 457(b) deferred compensation plan.

Employers are required by law to offer this program to their full-time employees and to transmit the amounts deducted from the member’s salary to TRS on a monthly basis.

Employers are responsible for maintaining Payroll Deduction Program records for state and federal tax reporting purposes.

## Program criterion

State and federal laws require the Payroll Deduction Program to meet the following conditions:

- Members must be employed full-time (i.e., four hours per day, five days per week) with the employer.
- The irrevocable agreement signed by the employer and the member may be terminated only when all required payments have been made; upon the member’s death, disability, or retirement; or upon termination of the member’s employment with the employer who entered into the agreement.
- The monthly deduction and the member’s payroll cycle may not be changed during the term of the agreement.
- The minimum monthly deduction amount allowed is \$50.
- Participation in the program may only start at the beginning of each calendar year quarter (*i.e.*, January 1, April 1, July 1, and October 1) if the agreement is for periodic payments.
- Members may not make direct payments or rollovers to TRS during the length of the PDP agreement for balances covered by the PDP.

## Establishing an effective PDP agreement

Only full-time TRS members may enter into an agreement and the agreement’s effective date must be at the beginning of a calendar quarter (January 1, April 1, July 1, October 1) for periodic payments. A PDP for a single lump-sum payment can be effective on the first of any month.

TRS issues PDP agreements up to the 10<sup>th</sup> day of the month prior to the quarterly start date (*i.e.*, through March 10 for the quarter beginning April 1) except for the quarter beginning July 1. TRS only issues July 1 start date agreements through May 15 because many employers run summer payrolls in May and June. Employers may also establish and communicate to employees their own internal cut-off dates for accepting agreements for a particular start date.

To participate in this program, the member must first establish an optional contribution balance with TRS, an estimated ERO balance, or request a 2.2 upgrade. An optional contribution balance may be established with TRS if the member is eligible to purchase optional service credit, repay refunded service, or retire under ERO.

After the balance is established or when requesting a 2.2. upgrade, the member contacts TRS about payroll deduction. TRS will provide PDP information to the member along with various payment options. When the member elects to participate in this program, TRS prepares and forwards an Irrevocable Agreement for the Payroll Deduction of Optional Contributions (see sample agreement at end of chapter) to the member based on the member's instructions. The member must sign the agreement, then forward it to the employer for acceptance and signature.

The employer should review the agreement to verify that:

- The agreement has been signed and dated by the member and was received from the member prior to the start date.
- The member's salary is sufficient to cover the monthly deduction.
- The member is employed full time.
- The member's payroll cycle is correct. The payroll cycle of a PDP agreement is equal to the number of calendar months that a deduction is made. Examples follow:
  - Member receives 19 pays (nine months with two pays, one month with one pay): pay cycle is 10.
  - Member receives 21 pays (10 months with two pays, one month with one pay): pay cycle is 11.
  - Member receives 20 pays (nine months with two pays, two months with one pay): pay cycle is 11.
  - Member receives 24 pays (12 months with two pays), but receives summer checks all in June: pay cycle is 12.
- The employer name and number are correct.
- The agreement has not been altered in any way.

If all of the above is true, the employer must sign the agreement and notify TRS that the member is participating in the Payroll Deduction Program by returning a copy of the agreement to TRS, preferably by fax to (217) 753-0969. TRS needs the copy before the 20<sup>th</sup> of the month prior to the agreement start date for the monthly deduction to be shown on the Employer Bill. The agreement with original member and employer signatures must be kept on file by the employer.

If the agreement has been altered in any way or if the agreement was given to the employer after payrolls have been run for the first month of an agreement, the employer should return the agreement to the member and advise them to contact TRS for a new PDP agreement.

An agreement may be revoked by the member prior to the date the employer makes the first deduction. For example, the first deduction from the member's paycheck for an agreement with an enrollment date of April 1 does not occur until April 15. The member may cancel the PDP agreement prior to April 15 when the PDP agreement becomes irrevocable.

## Remitting deductions to TRS

The employer is responsible for remitting the total amount deducted from participating members' salaries to TRS once each month. The amount is due to TRS by the 10th of the month following the month of the deduction and must be remitted via the Electronic Funds Transfer (EFT) system. See Chapter 4 for more information about the EFT program and remitting payments.

Employers should follow these guidelines when making remittances:

- Do not send payments for a member prior to the member's enrollment date.
- The employer may deduct the monthly amount over several payrolls within a month; however, please remit the total to TRS monthly. The amount of the monthly payment to TRS must remain constant, regardless of the number of payrolls in a month.
- The number of monthly remittances within a calendar year must equal the payroll cycle shown on the PDP agreement. The remittance of deductions from July payroll checks is due to TRS by August 10, and the remittance of deductions from August payroll checks is due to TRS by September 10, regardless of when the deductions are taken. Deductions are based on the irrevocable PDP agreement and are not related to the teaching contract or to when the salary is actually paid.
- Prior to the remittance debit date, the employer should note the EFT reference number and debit date on the TRS Remittance Form that was received for the current month and fax the form to TRS at (217) 753-0969. The Payroll Deduction Program portion of the Employer Bill should be reconciled to match the payment. Employers should note any changes, additions, or deletions on the bill and fax it to TRS prior to the debit date.

## Verifying payment information

The amount remitted each month on behalf of participating members will be reflected on the monthly Employer Statement. Please review this statement each month to verify that TRS is applying the payments as intended and notify TRS of any discrepancies. Members do not receive receipts each time a payment is processed. Employers must ensure that payments are remitted and applied correctly.

## Suspending PDP agreements

If a member is not receiving salary from the employer and is promised renewed employment at the end of the period or has the right of re-employment, a PDP agreement can be suspended for a period of time not to exceed one year. An example of this situation would be a teacher going on a leave of absence or on temporary disability for a year or less. Please notify TRS



if this type of situation occurs. Members with suspended agreements will be shown on the Payroll Deduction Program portion of the Employer Bill each month. Please notify TRS if the member's status changes.

## **Terminating PDP agreements**

Termination of a PDP agreement occurs when all required payments have been made; upon the death, disability, or retirement of the member; or upon termination of the member's employment with the employer who entered into the agreement. Payroll deductions should not be made after a member's retirement date or termination date.

It is important that employers notify TRS when a death, disability, retirement, or termination occurs. Simply note the final payment information on the Payroll Deduction Program portion of the Employer Bill and fax it to TRS at (217) 753-0969 prior to the payment debit date.

## **PDP completion**

Approximately three months prior to an agreement's completion, the final payment due dates and the amounts due will be shown on the PDP Final Payment Report (see sample report in Chapter 4). It is important that employers follow the information on the report because the employer is responsible for discontinuing the deductions and the last month's payment may be less than the regular monthly amount.



Teachers' Retirement System of the State of Illinois

2815 West Washington, P.O. Box 19253

Springfield, Illinois 62794-9253

(800) 877-7896

TDD (217)753-0329

Retirement Security for Illinois Educators

## Irrevocable Agreement for the Payroll Deduction of Optional Contributions

John Q Sample  
100 East Main Street  
Post Office Box 54321  
Little Town IL 12345-6789

Social Security number: 999-99-9999  
Date of birth: 02/25/1946  
Home telephone number: (999) 999-9999  
Work telephone number: (999) 999-9999  
Work extension number: 9999

Any unauthorized alterations to this agreement render it null and void.

I, the undersigned member in the retirement program administered by the Teachers' Retirement System of the State of Illinois (TRS), hereby

1. declare my intention to make optional contributions in the approximate amount of \$1,165.87 indicated below by having my employer pick up these optional contributions pursuant to Internal Revenue Code, Section 414(h)(2), and other applicable law. (The final amount of interest due will be determined at the conclusion of this agreement.)
2. authorize my employer to reduce my salary in the amount of \$130.00 per month beginning with my first pay period after April 1, 20XX, the enrollment date, until the principal thereon is paid. Monthly deductions will continue until the principal thereon is paid in full, approximately December 20XX. **However, the end date and any applicable interest may be different if TRS receives a payment after the date on which the estimate was made; if payments are partially paid, late, missed; or if the agreement is suspended.**
3. confirm that I am employed on a full-time basis (*i.e.*, four clock hours per day, five days per week).
4. understand and agree to the terms and conditions on the reverse side of this page.
5. understand and agree that the principal is based upon an estimate, dated March 2, 20XX, which was previously given to me and represents the amount due for the 2.000 years of 2.2 upgrade.

Member's signature

Date (*must be prior to enrollment date*)

### Acceptance by Employer:

On behalf of the below-named employer of the above-named member, I accept this irrevocable payroll agreement. I also confirm that the member is employed on a full-time basis. Accordingly, the below-named employer shall pick up these contributions in accordance with Internal Revenue Code, Section 414(h)(2), and other applicable law and forward once per month said contributions to the Teachers' Retirement System of the State of Illinois prior to the 10<sup>th</sup> day of the month following the month in which the deduction is made.

PDP agreement number:	123456	Monthly payment:	\$130.00
Service type:	2.2 Upgrade	Approximate end date:	December 20XX
Total estimated payable:	\$1,165.87	Payroll cycle:	9-months
Enrollment date:	April 1, 20XX	Month(s) member is excluded from payment:	June, July, and August

*If TRS does not receive this form prior to March 20, 20XX, the above payroll deduction for John Q Sample will not be listed on your March 20XX billing statement. Please include the above information regarding this deduction on your billing statement for reconciliation.*

Signature of authorized representative of employer

Date (*must be prior to enrollment date*)

Employer's printed name: All American School District

TRS code: 999-9999

Employer should keep original agreement for its records. Employer must return a **signed copy** of the agreement to TRS to confirm participation in the program.

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## TERMS AND CONDITIONS

The maximum length of this agreement shall not exceed 60 months from the August 15 following the date on which the upgrade application was made.

The minimum monthly payment must equal the lesser of the amount owed or \$50.00.

The deductions are to remain constant with the exception of the final payment, which may be less than the previous fixed amount.

My employer is obligated to make payment pursuant to this agreement only to the extent that there are sufficient funds from my earnings to do so after any other mandatory deductions.

While this agreement is in effect, no additional payments can be made by the member or employer towards this agreement.

These payments through payroll deduction are in addition to the contributions required to be made to TRS.

Periodic payroll deductions will begin effective the first pay period following the first day of the calendar quarter (*i.e.*, October 1, January 1, April 1, July 1) after my employer accepts this agreement.

This agreement is irrevocable once my employer accepts it and makes the first payroll deduction. This agreement shall continue until my retirement, death, disability, termination of my current employment status, or until payment is made in full.

The agreement is for an upgrade and if it is terminated prior to payment in full, the rules of TRS shall apply.

This agreement may be suspended for a period of time not to exceed one year if a member is not receiving salary from the employer and is promised renewed employment at the end of the period or has the right of re-employment.